

**Subject:** Financial Monitoring

**Status:** For Publication

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**Report to:** Cabinet

**Date:** 1<sup>st</sup> August 2007

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**Report of:** Head of Financial Services

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**Portfolio**

**Holder:** A Well Managed Council

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**Key Decision:** No

Forward Plan  General Exception  Special Urgency

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to update Members on the General Fund estimates for 2007/08, the Capital Programme and Treasury matters.

**2. CORPORATE PRIORITIES**

- 2.1 The matters discussed in this report are linked to and support the following corporate priorities:
- o *Strong financial management and the delivery of value for money services (Improvement)* – Effective and strong Financial Management ensures the effective management of the Council's resources which then enables the provision of value for money services

**3. RISK ASSESSMENT IMPLICATIONS**

- 3.1 All the issues raised and the recommendations in this report involve risk considerations as set out below:
- 3.1.1 Financial monitoring focuses on the key risk areas of: Employment costs, Income, agreed budget savings and emerging issues and opportunities. In addition the current monitoring analysis now focuses on service department costs as part of the 07/08 budget exercise.

## 4. BACKGROUND AND OPTIONS

### 4.1 Capital

4.1.1 Capital Receipts to date compared to full year expectations are as follows:

<b>Receipts:</b>	<b>Budget Expectations</b>	<b>Received</b>	<b>Surplus / (Deficit)</b>
<b>Land &amp; Property Sales</b>	1,085	112	(973)
<b>GVH - RTB</b>	1,676	0	(1,676)
<b>GVH - Vat Shelter</b>	428	0	(428)
<b>Insurance</b>	50	35	(15)
	<b>3,239</b>	<b>147</b>	<b>(3,092)</b>

4.1.2 Receipts from GVH are due, under the terms of the transfer contract, at the end of the financial year.

4.1.3 As at 16<sup>th</sup> July 2007, of the useable capital receipts noted above £110k was above the deminimus level of £10k. Amounts received below £10k total £2k.

4.1.4 The disposal programme has been identified and a number of major items have already been approved by Members. The Executive Director of Resources is chairing a regular meeting with the Property Services and Legal Teams in order to monitor the progress of the disposal programme. The current disposal programme has identified values in excess of the above budget expectations and pressure is being applied to complete transactions as quickly as possible.

4.1.5 Actual Capital Expenditure to 16<sup>th</sup> July 2007 compared to budget is as follows:

<b>Expenditure:</b>	<b>Approved Expenditure</b>	<b>Expenditure to date</b>	<b>Balance outstanding</b>
<b>Customer Services &amp; e-Government</b>	253	134	120
<b>SS&amp;L</b>	1,085	105	980
<b>Communities &amp; Partnership</b>	130	11	119
<b>Regeneration &amp; Economic Dev</b>	34	8	26
<b>Corporate</b>	988	284	704
<b>Housing</b>	4,464	366	4,097
	<b>6,954</b>	<b>908</b>	<b>6,046</b>

## 4.2 Forecast Net Revenue Expenditure

4.2.2 The current revenue spend forecast compared to budget for 2007/08 indicates some cost pressures but overall a net favourable variance of £28k (compared to an adverse previously reported of £19k [see shaded area below] and is detailed by service area as follows:

Service Area	2007/08 Base Budget £000	2007/08 Forecast £000	2007/08 Variance £000	Variance last reported £000
<b>Operational Services</b>				
Community and Partnerships	1,392	1,368	(24)	(21)
Customer Services and e Government	1,955	1,906	(49)	21
Economic Regeneration and Strategic Housing	573	548	(25)	(25)
Spatial Development	567	551	(16)	(33)
Street Scene and Liveability	4,756	4,789	33	75
<b>Support Services</b>				
Finance	165	220	55	0
Legal and Democratic Services	783	833	50	51
Policy and Performance	141	141	0	
Corporate Management	627	627	0	
Human Resources	108	108	0	
Non Distributed Costs	655	698	43	25
<b>Financing and Reserves</b>				
Capital Financing and Interest	(523)	(644)	(121)	(9)
Transfer to/(from) Reserves	0	26	26	(65)
Transfers to/(from) Earmarked Reserves	64	64	0	
<b>Total</b>	<b>11,263</b>	<b>11,235</b>	<b>(28)</b>	<b>19</b>

*NB - re the variance column, figures in brackets are favourable variances, those without brackets are adverse variances*

4.2.3 The movement in the variance is detailed as follows:

4.2.3.1 Community & Partnership (favourable variance increased by £3k) – some cost saving offset by an assumption that all grant budget will be allocated. This is a very prudent position and there is certainly potential for further savings.

4.2.3.2 Customer Services & e-Government (favourable variance increased by £69k) – Additional income anticipated from Court cost fees. The service area is anticipating a loss of IT support income, however, this is offset by further contract cost reductions

*NB The Council has previously set aside £200k as a budget volatility reserve to absorb such demand led costs should Members so approve. The above transfer from reserves includes the use of £65k of this reserve to support the forecast of an increase in the cost of concessionary travel.*

4.2.3.3 Economic Regeneration (No change in forecast)

- 4.2.3.4 Spatial Development (adverse variance increased of £18k) – in the main this is a result of temporary support requirements, to be funded out of previously identified savings. The forecast currently assumes that the full year income target will be met. Though revenue is currently on budget the first quarter has benefited from a one off and unique major application relating to the Rawtenstall Valley Centre redevelopment.
- 4.2.3.5 Street Scene & Liveability (favourable variance increased by £42k) – The service area has identified some existing provision for costs within its own area which will mitigate some of the previously identified overspend. In addition the current forecast does not include the DEFRA grant for 07/08 of £58k which it is assumed will be used to offset any budget over spend in this service area.
- 4.2.3.6 Financial Services (adverse variance increase of £55k) – In the main this is due to:
- Non-budgeted EleP consultancy fees of £25k, funded in previous years by the Change Management Reserve and before that IEG grants. Officers are now targeting further procurement savings in order to off set these cost.
  - In addition the Audit Commission have brought forward their invoicing cycle, in line with the accounting year, resulting in a one off additional cost for 07/08 of £30k. Other changes to costs are balanced out.
- 4.2.3.7 Legal & Democratic Services, Policy & Change Management, Corporate Management and Human Resources (No change in forecast)
- 4.2.3.8 Non Distributed Costs (adverse variance increased by £18k) – being due to the cost of historical pension costs being higher than original budget assumptions.
- 4.2.3.9 Capital Financing (favourable variance increased by £112k) – this is a result of the anticipation of a further £21k gain on interest earned as a result of recent interest rate changes (see 4.5 below). In addition as reported to the Accounts Committee (June 04) a technical adjustment to the year end balance sheet will result in a one off gain of £91k, being a reduction in Minimum Revenue Provision charges for 07/08 (see 4.5.1). The gain has been reversed in the above table by a transfer to Change Management Reserve.
- 4.2.4 *Impact of variances on Service Departments* - We need to be aware, as we look towards the end of the financial year, that Members have previously agreed that where departments are able to make savings, unless there are other corporate pressure, the service area can carry forward into future years 50% of the saving to fund non-recurrent local investment initiatives. At the same time those departments that incur expenditure above agreed budgets are required to recover that overspend (unless agreed by Members) from future year's budget resources. The impact of the above on Council reserves is therefore shown below, on the worst case assumption that all overspends are written off to general reserves. Overall the Council remains, there or there about, within budget:

	<b>£000</b>
Services where net costs are below budget (less saving retained within the service)	(202)
Services where costs are above budget	180
Use of volatility reserve	(65)
Reserves transfer	91
<b>Negative/(Favourable) Impact on General Reserves</b>	<b>4</b>

### 4.3 Employment Costs

4.3.1 The above forecast includes, amongst other things, some anticipated saving on salary costs. To put the above net expenditure in context the following table shows the current net saving position as at period 4 for total employment costs.

<b>Employment Costs - Period 4</b>	<b>2007/08 Actual £000</b>	<b>2007/08 Budget £000</b>	<b>2007/08 Variance £000</b>
<b>Operational Services</b>			
Community and Partnerships	30	38	(8)
Customer Services and e Government	139	158	(19)
Economic Regeneration and Strategic Housing	162	178	(16)
Spatial Development	236	254	(18)
Street Scene and Liveability	965	1,036	(71)
			0
<b>Support Services</b>			
Finance	159	161	(3)
Legal and Democratic Services	252	255	(3)
Policy and Performance	31	32	(1)
Corporate Management	124	124	0
Human Resources	79	79	0
<b>Total</b>	<b>11,263</b>	<b>2,315</b>	<b>(137)</b>

*NB - re the variance column, figures in brackets are favourable variances, those without brackets are adverse variances*

4.3.2 The 2007/08 pay award has not yet been finalised. The table above includes the original budget figure, less the 2% pay award budget, in order to show a realistic underlying position.

### 4.4 Reserves, Provisions & Grants

4.4.1 Appendix 1 illustrates the most significant Reserves, Provisions & Grants available to the Council less amounts already committed

4.4.2 Additional proposals for use of the Change Management Reserve, in addition to that already authorised are as follows:

- HR restructuring costs - £37k (this includes a redundancy cost for which officers will initially seek a capitalisation directive from DCLG)
- Job Evaluation Pay Modelling - £15k

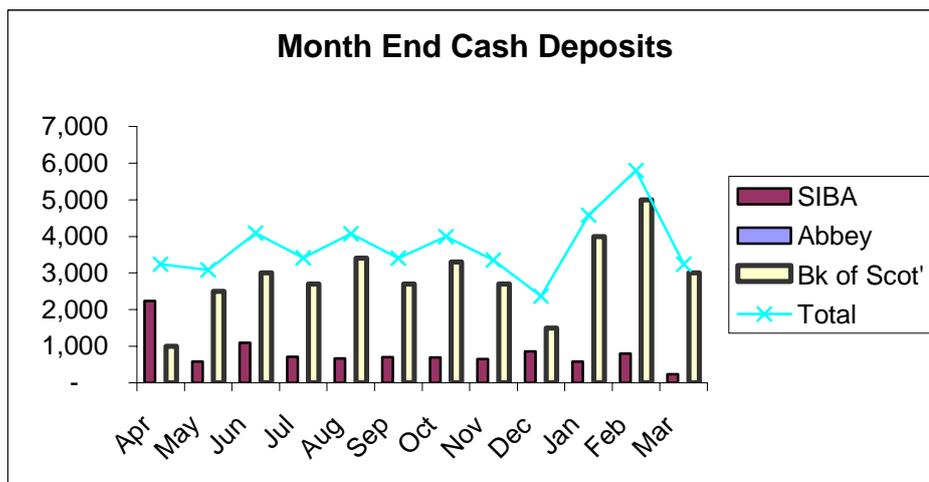
## 4.5 Treasury Management

4.5.1 Interest received less capital financing costs compared to budget are anticipated to as follows:

	Budget 07/08	F'cst 07/08	Variance ( ) = Fav
Minimum Revenue Prov'n	110	19	(91)
Treasury Costs	8	6	(2)
Interest Paid	5	5	0
Interest Received	(191)	(221)	(30)
<b>Total Cost / (surplus)</b>	<b>(68)</b>	<b>(191)</b>	<b>(123)</b>

4.5.2 The above table shows a current favourable variance on capital financing of £123k, this has been generated due to interest rates being above budget assumptions plus the implementation of a technical change noted in the previous month resulting in a one off gain of £91k. This gain has been transferred initially to the Change Management Reserve.

4.5.3 The Council is able not only to earn interest on its book figures but on funds committed but not yet paid out. The total balances on which the council was earning interest at 16<sup>th</sup> July was £4,888k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 3 months and the forecast cash flow for the remainder of the year (analysed by our different investment accounts):



4.5.4 The above graph shows the available cleared balances in each of the investment accounts, both historical and forecast. The peaks in June 2007 and

January 2008 are due in the main to the months being free from precepts being paid to County, Police and Fire authorities.

4.5.5 The current interest terms for the accounts which the Council regularly uses are:

	%		Interest Paid
	AER Gross Rate		
<b>SIBA</b>			
£1.5 M +	5.88	5.75	Quarterly
£1M - £1.5 M	5.82	5.70	Quarterly
<b>Bank of Scotland</b>			
£1 M +	6.02	5.86	Monthly
£500k - £1 M	5.76	5.61	Monthly
£0 - £500k	3.82	3.75	Monthly
<i>(as at 19/07/07)</i>			

4.5.6 The Council's current account banking arrangements ensure that any surplus funds are automatically transferred into a Special Investment Bank Account (SIBA) on a daily basis or transferred back to the current account as funds are required. Other accounts are regularly considered however the Bank of Scotland's seven day notice account continues to offer the most favourable rates within the required risk parameters.

4.5.7 As widely anticipated the Bank of England's Monetary Policy Committee (MPC) raised interest rates by 25 basis points to 5.75 on 5<sup>th</sup> July 2007 (following a 6-3 vote). The expectation had been highly anticipated. Some commentators are forecasting a further rise to 6.00% as soon as August. Sector still anticipate a rise but in the final quarter of 2007 as follows:

	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008
<b>Base Rate</b>	5.50%	5.75%	6.00%	6.00%	5.75%	5.75%
<b>25yr PWLB</b>	5.15%	5.00%	5.00%	4.90%	4.70%	4.65%

*Sector (14<sup>th</sup> June 2007)*

4.5.8 Latest inflation reports show CPI at 2.4% and RPI at 4.4% this has led to some market speculation that a 6.00% base rate may not be the top of the interest rate cycle.

## 5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

5.1 Financial matters are dealt within the report.

## 6. COMMENTS OF THE HEAD OF LEGAL AND DEMOCRATIC SERVICES

6.1 Unless specifically commented upon within the report, there are no implications for Legal and Democratic service matters.

## 7. COMMENTS OF THE HEAD OF HUMAN RESOURCES

- 7.1 Unless specifically commented upon within the report, there are no implications for Human Resource matters.

## 8. CONCLUSION

- 8.1 Overall the General Fund revenue forecast is showing to be in line with the Councils net revenue budget and includes provision for Council's current know risk areas.

## 9. RECOMMENDATIONS

- 9.1 The Members note and consider the contents of the report.
- 9.2 That Members approve the further use of the Change Management Reserve as detailed in 4.4.2

## 10. CONSULTATION CARRIED OUT

- 10.1 Executive Director of Resources

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<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
2007/08 Budget (revenue and capital)	Full Council papers – Feb 07
2007/08 Additional capital authorisations	